

ASSIGNMENT QUESTIONS: “Sneakers”

1. Should the following be included in Sneaker 2013’s capital budgeting cash flow projection? Why or why not?

- a. Building a factory and purchase/installation of the equipment
- b. Research and development costs
- c. Cannibalization of other sneaker sales
- d. Interest costs
- e. Changes in current asset/current liabilities accounts
- f. Taxes
- g. Cost of goods sold
- h. Advertising and promotion expenses
- i. Depreciation charges

2. Produce a projected capital budgeting cash flow statement for the Sneaker 2013 project by answering the following:

- a. What is the project’s initial (year 0) investment outlay?
- b. What are the project’s annual (years 2013-2018) net operating cash flows?
- c. What is the project’s terminal (2018) non-operating net cash flow?
- d. Does Sneaker 2013 appear viable from a quantitative standpoint? To answer this question, estimate the project’s payback, net present value, and internal rate of return.

Persistence: Assignment Questions

1. Which cash flows should be incorporated into the project’s forecast? Why or why not?

2. Produce a projected capital budgeting cash flow statement for the Persistence project by answering the following:

- a. What is the project’s initial (year 0) investment outlay?
- b. What are the project’s annual net operating cash flows?
- c. What is the project’s terminal (2018) net cash flow?

3. Does Persistence appear attractive from a quantitative standpoint? To answer this question, estimate the project’s payback, net present value, and internal rate of return.

Additional Assignment Questions

1. Which project do you think is more risky? How do you think you should incorporate differences in risk into your analysis?

2. Based on the calculated payback period, net present value (NPV), and internal rate of return (IRR) for each project, which project looks better for New Balance shareholders? Why?
3. Should Rodriguez be more or less critical of cash flow forecasts for Persistence than of cash flow forecasts for Sneaker 2013? Why?
4. What is your final recommendation to Rodriguez?